

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House  
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**FISCAL IMPACT STATEMENT**

**LS 6270**

**BILL NUMBER: SB 71**

**DATE PREPARED:** Nov 16, 2000

**BILL AMENDED:**

**SUBJECT:** Income Tax Deduction for Disability Income.

**FISCAL ANALYST:** Brian Tabor

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**FUNDS AFFECTED: X GENERAL  
DEDICATED  
FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** This bill removes a provision that prohibits a person who is at least 65 years of age from receiving the Adjusted Gross Income Tax deduction for disability income.

**Effective Date:** January 1, 2002.

**Explanation of State Expenditures:** The Department of State Revenue (DOR) will incur some administrative expenses related to the revision of tax forms, instructions, and computer programs to incorporate these changes. These expenses could be absorbed given the DOR's existing budget and resources.

**Explanation of State Revenues:** Under the current statute, only those individuals who are under 65 years old can deduct up to \$5,200 of disability income from their taxable income. The deduction is phased down based on the amount that the taxpayer's federal adjusted gross income (AGI) exceeds \$15,000. This bill would allow individuals who are 65 and older to deduct a similar portion of their disability income. *Eliminating the age eligibility requirement for the disability income tax deduction would reduce individual income tax revenue by a minimal amount.*

It is unknown how many additional individuals might be eligible, but it is unlikely that there would be much income from private disability insurance plans after an individual reaches retirement age. For each eligible taxpayer who is able to deduct the maximum of \$5,200, there would be a reduction of \$177 in income tax liability (\$5,200 multiplied by the Individual AGI Tax rate of 3.4 %).

*Data:* According to the DOR's Individual Income Tax Statistics, in 1998 there were only 3,054 taxpayers under the age of 65 who deducted a total of \$13.2 M in disability income, resulting in a tax liability reduction of \$450,000. In 1997, there were only 3,287 taxpayers who deducted \$14.5 M in disability income, reducing their total tax liability by \$493,000.

This deduction is applicable for tax years beginning January 1, 2002, and will affect revenue collections beginning in FY 2002. Individual AGI Tax revenue is deposited in the General Fund.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** Counties imposing local option income taxes will experience a minimal reduction in revenue from these taxes as a result of extending this deduction.

**State Agencies Affected:** Department of State Revenue.

**Local Agencies Affected:** Counties imposing local option income taxes.

**Information Sources:** DOR's 1997 and 1998 Individual Income Tax Statistics.